MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BFN2044 – BANK MANAGEMENT

(All sections / Groups)

7 MARCH 2018
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 3 pages with 4 questions only.
2. Attempt ALL FOUR questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answer in the Answer Booklet provided.

Question 1 (25 marks)

(a) Managing net interest margin and net noninterest margin is crucial for all banks today. Why do bank managers pay close attention to the net interest margin and noninterest margin?

(10 marks)

(b) Suppose that stockbrokers have projected that Jamestown Savings will pay a dividend of RM2.50 per share on its common stock at the end of the year; a dividend of RM3.25 per share is expected for the next year, and RM4.00 per share in the following two years. The risk-adjusted cost of capital for banks in Jamestown's risk class is 15 percent. If an investor holding Jamestown's stock plans to hold that stock for only four years and hopes to sell it at a price of RM50 per share, what should the value of the bank's stock be in today's market?

(6 marks)

(c) The purpose of Asset-Liability management is to control a bank's sensitivity to changes in market interest rates and limit its losses in its net income or equity. Differentiate between asset management, liability management and fund management approach.

(9 marks)

Question 2 (25 marks)

a) Suppose Baron Bank and Trust reports interest-sensitive assets of RM570 million and interest-sensitive liabilities of RM685 million. Assuming the bank's size is the same as interest-sensitive assets, calculate the bank's:

i. dollar interest-sensitive gap (3 marks)
ii. relative interest-sensitive gap (3 marks)
iii. interest-sensitivity ratio (3 marks)
iv. Is the bank asset sensitive bank or liability sensitive bank? (1 mark)

v. What happened to this bank's net interest income if the interest rates are rising?

(1 mark)

b) What types of investment securities do banks seem to prefer the most recently? Explain your reasons.

(9 marks)

c) The return on total assets indicates the bank's efficiency in managing its assets. Supposed a bank estimates that its total revenues will amount to RM155 million and its total expenses (including taxes) will equal RM107 million this year. Its liabilities total RM4,960 million while its equity capital amounts to RM52 million. What is the bank's return on assets?

(5 marks)

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Question 3 (25 marks)

a) A bond currently sells for RM970 based on a par value of RM1,000 and promises RM90 in coupon payment for three years before being retired. Yields to maturity on comparable-quality securities are currently at 12 percent.

i) Calculate the bond's duration.

(7 marks)

ii) Suppose interest rates in the market fall to 10 percent. What will be the approximate percent change in the bond's price?

(3 marks)

b) OCVC Bank estimates that over the next 24 hours the following cash inflows and outflows will occur (all figures in millions of Ringgit:

Cash inflows or outflows	RM million
Deposit withdrawals	100
Deposit inflows	95
Scheduled loan repayments	90
Acceptable loan requests	60
Borrowings from the money market	80
Sales of bank assets	40
Stockholder dividend payments	150
Revenues from sale of nondeposit services	95
Repayments of bank borrowings	60
Operating expenses	50

i) Based on the above information, calculate the bank's projected net liquidity position in the next 24 hours.

(12 marks)

ii) From what sources can the bank cover its liquidity needs?

(3 marks)

Question 4 (25 marks)

a) Problem loans by customers may result in higher non-performing loans in banks. Explain eight (8) warning signs to management that a problem loan may be developing?

(8 marks)

Continued...

b) Analysis of the financial statements of a business borrower typically begins when the bank analyses the trends of key ratios using borrower's financial statement. With the help of these ratios, the loan officers and credit analysts will determine whether their financing to the firm will be approved of rejected.

As a credit analyst, you are given the following information for DYXY Sdn Bhd.

Business Assets (RM Million)	
Cash account	60
Accounts receivable	155
Inventories	128
Fixed assets	286
Miscellaneous assets	96
Total	725
Liabilities and Equity (RM million)	
Short-term debt:	108
Accounts payable	117
Notes payable	325
Long-term debt (bonds)	15
Equity capital	160
Total	725

Annual revenue and expense item (RM million)	
Net sales	600
Cost of goods sold	445
Wages and salaries	52
Interest expense	28
Overhead expenses	29
Depreciation expenses	12
Selling, administrative, and other expenses	28
Before-tax net income	6
Taxes owed	1
After-tax net income	5

Based on the above information, calculate the key ratios for marketability, coverage ratios and liquidity indicator for this company.

(17 marks)

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